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DONLEE MANUFACTURING INDUSTRIES LIMITED

Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1968



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DONLEE MANUFACTURING INDUSTRIES LIMITED

Board of Directors

R. H. BURNS

J. S. LEE

A. S. DONOVAN

P. L. MURRAY

J. C. DONOVAN

G. C. STEWART

R. J. DONOVAN

Officers

A. S. DONOVAN - - - - - President

J. S. LEE - - - - - Vice-President

J. C. DONOVAN - - - - - Vice-President

P. L. MURRAY - - - - - Secretary-Treasurer

Transfer Agent and Registrar

ROYAL TRUST COMPANY

Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver

Auditors

THORNE, GUNN, HELLIWELL & CHRISTENSON

101 Richmond St. West, Toronto, Ontario

Head Office

137 Wendell Avenue

Weston, Ontario

DONLEE MANUFACTURING INDUSTRIES LIMITED

Head Office 137 Wendell Avenue
Weston, Ontario

Divisions PARAMOUNT INDUSTRIES

Plants

137 Wendell Avenue, Weston

1945 Wilson Avenue, Weston

11 Fenmar Drive, Weston

Sales Office

28277 Dequindre Road, Madison Heights, Michigan

GENERAL GEAR COMPANY

597 Trethewey Drive, Toronto 15

GENERAL DEEP HOLE BORING & TURNING COMPANY

60 Bertal Road, Toronto 15

82 Industry Street, Toronto 15

Subsidiaries THE NUDAY Co.
14615 Wyoming Avenue, Detroit, Michigan

AUTOMOTIVE INDUSTRIES, INC.

Plant

Owendale, Michigan

Sales Office

28277 Dequindre Road, Madison Heights, Michigan

DONLEE MANUFACTURING INDUSTRIES LIMITED

Report of the Board of Directors to the Shareholders for the year ended December 31, 1968

The figures referred to in this report and in the accompanying financial statements have been prepared on a basis to show the combined results of the amalgamating companies for the first three months of 1968, the results of the amalgamated company for the last nine months, and the results of the subsidiary, The Nuday Co., for the full year. Because of the differing fiscal years of the predecessor companies, it is impossible to show comparative income figures for 1967. In line with generally accepted accounting procedures, the "deferred tax" method of calculating income taxes has been adopted as explained in detail in note 3(b).

SALES AND EARNINGS

Sales during 1968 reached a total \$8,264,905 with net earnings after tax of \$528,772. The audited statements of the amalgamating companies and The Nuday Co. for fiscal years ended in the calendar year 1967 were reported in the prospectus dated May 10, 1968 and showed combined sales of \$6,128,345 and combined net earnings after treating the earnings of all Canadian companies as earned by one taxable Canadian corporation and providing for deferred income taxes of \$357,141. The net income figures expressed on a share basis are \$1.51 in 1968 and \$1.02 in 1967.

PLANT AND PROPERTIES

Capital expenditures during the year for land, building, machinery and equipment amounted to \$910,487 and recorded depreciation was \$164,813.

A six-acre piece of land fronting on Highway 400 in North West Toronto was acquired. The 21,000 square foot building which was part of the package, satisfied an immediate need for space and the land provides room for future expansion.

ITEMS OF INTEREST

The Head Office of the Company was transferred to the Paramount offices at 137 Wendell Avenue, Weston, Ontario, in order to consolidate the accounting and administrative activities in one location.

The plastic industry is experiencing a rapid growth rate both in automotive and other industrial applications and in order to participate in this new field, blow molding and extruding equipment was purchased. The entry into this field is a modest one but will permit expansion as experience is gained both in technology and marketing.

During the year facilities were set up for the manufacture of automobile arm rests. The effect of this new product on the sales of the Company will be slow at first but should prove beneficial in the last half of 1969.

A new line of plastic nursery furniture has been designed and tested on the market. Final production plans are being made with a projected initial sales date of May or June 1969. Since this product is of a completely new concept and is involved with the consumer market, it is impossible to assess its initial reception. Sales which will be handled through a new division called "Mariko" will be in the U.S. as well as the Canadian market.

Early in 1969 the Company acquired a seventeen-acre piece of undeveloped land on Steele's Avenue in North West Metropolitan Toronto. The acquisition was made not for immediate use but to ensure adequate land close to labour markets and transportation on which to locate the Paramount Division in the years ahead as their leases expire.

All the outstanding shares of Automotive Industries, Inc., of Owendale, Michigan, were acquired in February 1969. This company is a supplier of automotive sun visors and arm rests to the major automobile manufacturers. There should be substantial benefits accruing from this new subsidiary, through making better use of facilities, larger volume purchases, shared management and sales costs, etc. These benefits should begin to show in the second half of 1969.

A new line of financing was arranged through the Federal Government's Adjustment Assistance Board. While as yet, none of these funds have been drawn, they are available to the Company to finance the various projects which are under consideration.

OUTLOOK:

The outlook for 1969 is bright. The continued buoyancy of the automobile market should mean another good year for the automotive section of the Company. Increased activity in the machine tool fields is being felt at General Gear Division. The General Deep Hole Boring & Turning Division are busy working on their present contracts for the nuclear generating station at Pickering, Ontario. A new project is currently being planned by the Hydro Electric Power Commission of Ontario and various new non-nuclear projects are under consideration. The new projects in the plastic area should begin to show their potential in the latter half of 1969.

The success of the Company in 1968 is due in a large way to the contribution made by all our employees. Their acceptance and adjustment to the added problems experienced at the time of amalgamation is most appreciated by the Directors.

On behalf of the Board.

A. S. DONOVAN

March 1969.

Thorne,
Gunn,
Helliwell
& Christenson

CHARTERED ACCOUNTANTS

Auditors' Report

To the Shareholders of
DONLEE MANUFACTURING INDUSTRIES LIMITED

We have examined the consolidated balance sheet of Donlee Manufacturing Industries Limited and its subsidiary as at December 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except as set out in note 3 to the consolidated financial statements.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Toronto, Canada
March 7, 1969

DONLEE MANUFACTURING

(Incorporated under the laws of the State of New York)

and its subsidiaries

*Consolidated Balance Sheet**Assets*

	1968	1967
		(note 2)
CURRENT ASSETS		
Cash - - - - -	\$ 172,195	\$ 677
Accounts receivable - - - - -	1,855,407	861,917
Inventories at the lower of cost and net realizable value in 1968 (1967—see note 3 (a) i) - - - - -	921,909	1,111,347
Prepaid expenses - - - - -	52,959	16,439
	<u>3,002,470</u>	<u>1,990,380</u>
OTHER ASSETS		
Special refundable tax - - - - -	12,377	7,934
Chemokan Enterprises Limited		
6% Demand note - - - - -		135,000
Advances - - - - -		40,163
	<u>12,377</u>	<u>183,097</u>
FIXED ASSETS		
Land, buildings, machinery and equipment, at cost - - - - -	2,004,679	1,077,572
Less accumulated depreciation - - - - -	467,353	292,643
	<u>1,537,326</u>	<u>784,929</u>
EXCESS OF COST OVER BOOK VALUE AT DATE OF ACQUIRING SHARES OF SUBSIDIARY	<u>13,007</u>	
 Approved by the Board		
 A. S. DONOVAN, Director		
 P. L. MURRAY, Director		
	<u>\$4,565,180</u>	<u>\$2,958,406</u>

IG INDUSTRIES LIMITED

(Incorporated under the laws of Ontario)

Subsidiary

at — December 31, 1968

Liabilities

	1968	1967
CURRENT LIABILITIES		
Bank advances, secured by assignment of book debts - - - - -	\$ 990,000	\$ 583,609
Accounts payable and accrued liabilities - - - - -	813,315	785,278
Income taxes payable - - - - -	156,158	210,211
Principal instalments due within one year on long term debt - - - - -	114,266	90,675
	<u>2,073,739</u>	<u>1,669,773</u>
LONG TERM DEBT (note 4)		
6% Serial debentures - - - - -	101,500	107,169
6% Promissory note - - - - -	141,253	
Other - - - - -		133,882
	<u>242,753</u>	<u>241,051</u>
Less principal instalments included in current liabilities - - - - -	114,266	90,675
	<u>128,487</u>	<u>150,376</u>
LONG TERM LEASES (note 5)		
DEFERRED INCOME TAXES (note 3 (b)) - - - - -	<u>102,700</u>	<u>48,900</u>

Shareholders' Equity

CAPITAL STOCK (note 6) - - - - -	1,068,306	400,163
RETAINED EARNINGS - - - - -	<u>1,191,948</u>	<u>689,194</u>
	<u>2,260,254</u>	<u>1,089,357</u>
	<u>\$4,565,180</u>	<u>\$2,958,406</u>

DONLEE MANUFACTURING INDUSTRIES LIMITED

and its subsidiary

Consolidated Statement of Earnings

Year Ended December 31, 1968

Sales - - - - -	\$8,264,905
Expenses	
Cost of sales and expenses other than the undernoted - - - - -	\$6,335,993
Depreciation (note 3 (a) ii) - - - - -	164,813
Interest—long term debt - - - - -	13,751
—other - - - - -	68,149
Remuneration of directors and senior officers - - - - -	131,465
Selling and administrative expenses - - - - -	476,962
	<u>7,191,133</u>
Earnings before income taxes - - - - -	1,073,772
Income taxes (note 3 (b)) - - - - -	545,000
	<u>545,000</u>
Net earnings for the year - - - - -	<u>\$ 528,772</u>

Consolidated Statement of Retained Earnings

Year Ended December 31, 1968

Balance at beginning of year of amalgamating companies	
As previously reported - - - - -	\$ 738,094
Adjustment for deferred income taxes (note 3 (b)) - - - - -	48,900
As restated - - - - -	<u>689,194</u>
Net earnings for the year - - - - -	528,772
	<u>1,217,966</u>
Deduct	
Expenses of issue of common shares - - - - -	\$ 52,618
Less related income tax reduction - - - - -	26,600
	<u>26,600</u>
Balance at end of year - - - - -	<u>\$1,191,948</u>

DONLEE MANUFACTURING INDUSTRIES LIMITED

and its subsidiary

Consolidated Statement of Source and Application of Funds

Year Ended December 31, 1968

Source of funds

Operations

Net earnings for the year - - - - -		\$528,772	
Add items not involving a current outlay of funds			
Depreciation - - - - -		164,813	
Deferred income taxes - - - - -		53,800	
		<u>747,385</u>	
Working capital of The Nuday Co. at date of acquisition of shares -		162,822	
Issue of common shares - - - - -	\$668,125		
Less expenses of issue - - - - -	<u>26,018</u>	642,107	
Issue of common shares of amalgamating companies - - - - -		200,018	
Repayment of demand note and advances by Chemokan Enterprises Limited - - - - -		175,163	
Disposals of fixed assets - - - - -		<u>14,750</u>	\$1,942,245

Application of funds

Additions to fixed assets - - - - -		910,487	
Special refundable tax - - - - -		4,443	
Cost of shares of The Nuday Co. - - - - -	197,302		
Less payments falling due subsequent to December 31, 1969 included in long term debt - - - - -	<u>68,987</u>	128,315	
Decrease in long term debt - - - - -		90,876	
Redemption of preference shares of amalgamating company - - -		<u>200,000</u>	<u>1,334,121</u>
Increase in working capital - - - - -			608,124
Working capital at beginning of year - - - - -			<u>320,607</u>
Working capital at end of year - - - - -			<u><u>\$ 928,731</u></u>

DONLEE MANUFACTURING INDUSTRIES LIMITED

and its subsidiary

Notes to Consolidated Financial Statements

December 31, 1968

1. AMALGAMATION AND BASIS OF CONSOLIDATION

Donlee Manufacturing Industries Limited was formed on April 1, 1968 on the statutory amalgamation of Paramount Gasket Co. Limited, General Gear Limited and General Deep Hole Boring & Turning Limited. The 1968 consolidated financial statements have been prepared to include the combined results of operations of the amalgamating companies for the three months ended March 31, 1968, the results of operations of the amalgamated company for the nine months ended December 31, 1968 and the results of operations of the subsidiary, The Nuday Co. for 1968.

The statements of The Nuday Co. have been converted from United States dollars into Canadian dollars on the following basis: current assets and current liabilities at the exchange rate prevailing at December 31, 1968; fixed assets at the rates prevailing at the later of the date of acquisition of the shares of The Nuday Co. or the date of purchase of the fixed assets; revenue and expenses at the average rate of exchange during the year.

2. COMPARATIVE FIGURES

The comparative balance sheet is a combined balance sheet as of December 31, 1967 of the companies which were later amalgamated but does not include the accounts of The Nuday Co. which was not acquired until 1968. Comparative figures for 1967 are not available for the statements of earnings, retained earnings and source and application of funds due to the differing fiscal periods for 1967 of the amalgamating companies.

3. ACCOUNTING PRACTICES

- (a) The company adopted the accounting practices of the amalgamating companies with the following exceptions which in the aggregate had no material effect on the net earnings for the year.

(i) Inventories

Work in process on an uncompleted contract of an amalgamating company was valued at December 31, 1967 at cost and estimated earnings. In 1968 similar work in process was valued at the lower of cost and net realizable value. Had the former basis been continued in 1968 the net earnings for the year would have been increased by approximately \$20,000.

(ii) Depreciation

Prior to 1968, one of the amalgamating companies computed depreciation on the diminishing balance basis. For 1968 the policy was adopted to compute depreciation on a straight line basis, the method employed by the other divisions. Had the former method been continued in 1968, the net earnings for the year would have been decreased by approximately \$12,000.

(b) Income taxes

In 1968 the basis of accounting for income taxes was changed to reflect deferred income taxes in the accounts. The 1967 figures have been restated to be on a comparable basis.

Deferred income taxes of \$48,900 at December 31, 1967, which result from claiming for tax purposes depreciation in excess of that charged to income, have been charged to retained earnings. Additional deferred income taxes of \$53,800 for 1968 have been charged in the statement of earnings.

4. LONG TERM DEBT

(a) 6% Serial debentures

Debentures maturing May 15, 1971 held by the Adjustment Assistance Board are repayable in monthly instalments of \$3,500 plus interest. The payment of the principal is secured by:

- (i) First chattel mortgage on all plant, machinery and equipment now owned and hereafter acquired;
- (ii) Mortgage of leasehold properties;
- (iii) Assignment of benefits under an insurance policy on the life of a director; and
- (iv) Floating charge against the assets of the company.

(b) 6% Promissory note

The note is collaterally secured by a pledge of the shares of The Nuday Co. and is payable by principal payments of \$ U.S. 28,000 on January 2, 1969 and \$ U.S. 3,500 per month from February 1, 1969 until maturity on April 1, 1971 plus interest payable monthly on the outstanding balance.

(c) 7¼ % Serial debentures to be issued

The Adjustment Assistance Board has authorized a loan to the company of \$1,555,000 to be secured by the issue of debentures maturing September 15, 1979. The debentures are repayable \$8,000 October 15, 1969 and \$13,000 plus interest monthly from November 15, 1969. The payment of the principal will be secured by:

- (i) First fixed charge on land owned December 31, 1968 and buildings thereon;
- (ii) Fixed charge on land in Vaughan Township (note 7 (a));
- (iii) Fixed charge on machinery and equipment now owned or to be acquired subject only to prior charges in respect of the 6% serial debentures (note 4 (a)); and
- (iv) Mortgage or assignment of leases.

5. LONG TERM LEASES

The companies rent several buildings under long term leases. The aggregate of rentals incurred as an expense during 1968 was \$115,630. The aggregate minimum rental expense to be incurred under these leases during the five years ending December 31, 1973 will be \$457,788. The leases expire at varying dates to December 31, 1977.

6. CAPITAL STOCK

Donlee Manufacturing Industries Limited

Authorized

600,000 common shares of no par value

Issued

On amalgamation to shareholders of:

	Shares	Amount
Paramount Gasket Co. Limited - - - - -	151,250	\$ 26
General Gear Limited - - - - -	77,000	200,055
General Deep Hole Boring & Turning Limited - - - - -	46,750	200,100
	<u>275,000</u>	<u>400,181</u>
For cash - - - - -	76,250	668,125
Balance December 31, 1968 - - - - -	<u>351,250</u>	<u>\$1,068,306</u>

Of 10,000 shares reserved for employees' stock options, the company has granted options on 9,010 shares of its capital stock at \$9.50 per share. During 1968 options on 1,250 shares were exercised. Options on 7,760 shares remain outstanding at December 31, 1968 exercisable at various dates up to June, 1973.

Amalgamating companies prior to amalgamation

Paramount Gasket Co. Limited

	Shares	Amount
Common shares, par value \$1		
Issued, January 1, 1968 - - - - -	8	\$ 8
Common shares without par value		
Subdivision by supplementary letters patent - - - - -	151,248	8
Issued for cash - - - - -	2	18
Issued prior to amalgamation - - - - -	151,250	\$ 26

General Gear Limited

Common shares without par value		
Issued, January 1, 1968 - - - - -	505	\$ 55
Subdivision by supplementary letters patent - - - - -	51,510	55
Issued for cash - - - - -	25,490	200,000
Issued prior to amalgamation - - - - -	77,000	\$ 200,055
Preference shares, par value \$10		
Issued, January 1, 1968 - - - - -	2,000	\$ 200,000
Redemption for cash - - - - -	2,000	200,000

General Deep Hole Boring & Turning Limited

Common shares without par value		
Issued, January 1, 1968 - - - - -	2,001	\$ 50,100
Reclassification and subdivision of 150,000 preference shares by supplementary letters patent - - - - -	44,749	150,000
Issued prior to amalgamation - - - - -	46,750	\$ 200,100
Preference shares, par value \$1		
Issued, January 1, 1968 - - - - -	150,000	\$ 150,000
Reclassified - - - - -	150,000	150,000

7. SUBSEQUENT EVENTS

Subsequent to December 31, 1968

- (a) the company acquired 16.934 acres of vacant land in Vaughan Township for \$220,142 as follows:
 - (i) \$100,142 on closing date.
 - (ii) 8% mortgage of \$120,000 maturing 5 years from closing date, repayable \$2,500 plus interest quarterly.
- (b) the company acquired all the issued and outstanding capital stock of Automotive Industries, Inc. for \$ U.S. 250,000 as follows:
 - (i) \$ U.S. 72,500 on closing date.
 - (ii) 6% promissory notes of \$ U.S. 177,500 repayable \$ U.S. 17,750 plus interest semi-annually from January 2, 1970.

